

ORIGINAL
OPEN MEETING



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MEMORANDUM RECEIVED

Arizona Corporation Commission
DOCKETED
2010 AUG 10 A 10:03
AECORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: August 10, 2010

DOCKETED BY *[Signature]*

RE: NAVOPACHE ELECTRIC COOPERATIVE, INC. - APPLICATION FOR APPROVAL OF A RUS GUARANTEED FFB LOAN IN THE AMOUNT OF \$33,231,000 TO FUND THE CONSTRUCTION OF FACILITIES (DOCKET NO. E-01787A-05-0719)

Navopache Electric Cooperative ("Navopache" or "Cooperative") filed a Notice of Amended Work Plan 2005-2009 ("Amended Plan") on January 28, 2010 explaining that the Rural Utilities Service ("RUS") had approved the expenditure of \$7,000,000 on new operation facilities, which include a warehouse, meter shop, crew room, transformer shop and vehicle maintenance facility. On April 8, 2010, IBEW Local 387 ("Local 387") filed an application to intervene in this docket, citing concerns over "Navopache's balance sheet" and "the Company's overall long-term strategic plan and the Union's role in it." Intervention was granted by procedural order dated May 5, 2010.

In its April 14, 2010 filing, Navopache explained its need for new operation facilities and included a list of distribution projects (shown on Exhibit D) that would be deferred to its next Construction Work Plan. On May, 18, 2010, Navopache docketed a Motion for "Determination that No Amendment to Decision No. 68691 is Necessary, or in the Alternative, for Approval of an Amendment to Decision No. 68691 ("Motion") under § 40-252". In this Motion, Navopache sought Commission authority to spend up to \$7 million from the previously approved financing to construct a much needed operations control center in lieu of certain distribution system projects that will instead be deferred to Navopache's new Construction Work Plan 2010-2014. On June 10, 2010, the Commission voted to reopen Decision No. 68691.

On June 25, 2010, by Procedural Order, a hearing in this matter was scheduled to commence on July 14, 2010. On July 12, 2010, Navopache and Local 387 filed a stipulated request to vacate the hearing set for July 14, 2010, and requested that the Commission expedite approval of Navopache's application to Amend Decision No. 68691. The stipulation stated that Navopache and Local 387 agreed to vacating the July 14, 2010 hearing date; requested that the Commission amend Decision No. 68691 to approve the use of \$7 million in loan proceeds for the design, development and construction of new Operation Facilities; and that any Order include language directing Navopache to file a rate application with the Commission on or before July 1, 2011, if, after review, Navopache's Board of Directors determined that a rate case is necessary.

Staff's Analysis, Conclusions and Recommendations

Staff reviewed the Cooperative's Motion and sent a data request, asking the Cooperative to provide detailed justification for postponing upgrades and construction of new lines and conversion of a spare substation transformer. Navopache provided a written response to Staff's questions. Staff also had discussions with Mr. Chuck Moore, Navopache's Engineering Manager, about the impact the deferral of stated projects would have on the reliability of the system. The main reason for deferral of these distribution projects was the downturn in economy and reduced load forecast for the next five years. The deferred projects include the following:

1. Improvements to the Concho, Heber, Springer Mountain and Wagon Wheel substations and adjacent distribution lines;
2. Conversion of a spare substation transformer into a mobile substation; and
3. Installation of a permanent oil containment structure at the Coronado transformer.

The deferred projects are now planned to be constructed in the early part of the new 2010-2014 Work Plan, which is being finalized at this time.

The building of the new operations facilities is urgently needed because Navopache's principal base of operations has remained at the same location in Lakeside Arizona since the 1950s. Navopache leases approximately 5.84 acres in connection with its current operations facilities. The lease can be terminated upon 90 days' written notice. The landowners of the leased land have indicated they are attempting to sell the leased premises, which would disrupt the operations of Navopache. The existing warehouse space is approximately 3,000 sq. ft., including warehouse personnel office space. The existing meter shop area is approximately 1,400 sq. ft. The new warehouse space will be approximately 9,000 sq. ft. of floor space for material, approximately 3,200 sq. ft. of storage space on a mezzanine, and approximately 1,900 sq. ft. of office area (including break room, men and women restrooms, and storage closets). The new meter shop area will be approximately 2,500 sq. ft.

Based on Navopache's data response to Staff's questions and Staff's discussion with Mr. Moore, it is Staff's conclusion that the Cooperative's deferral of the distribution projects in question will not compromise system reliability, nor its provision of electric service to the end-use customers. Staff further concludes that the proposed new operations facilities and control center will result in more efficient and reliable system operations that should in turn result in improved customer service.

THE COMMISSION

August 10, 2010

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In light of the foregoing, Staff recommends that Navopache complete installation of a permanent oil containment structure at the Coronado transformer by December 31, 2010. Staff further recommends that Navopache's Motion to amend Decision No. 68691 be granted.

A handwritten signature in black ink, appearing to read "Steven M. Olea", with a long horizontal stroke extending to the right.

Steven M. Olea
Director
Utilities Division

SMO:PKB:lhv\RM

ORIGINATOR: Prem K. Bahl

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES
3 Chairman

4 GARY PIERCE
5 Commissioner

6 PAUL NEWMAN
7 Commissioner

8 SANDRA D. KENNEDY
9 Commissioner

10 BOB STUMP
11 Commissioner

12

13 IN THE MATTER OF THE APPLICATION)
14 OF NAVOPACHE ELECTRIC)
15 COOPERATIVE, INC., AN ARIZONA NON-)
16 PROFIT CORPORATION, FOR APPROVAL)
17 OF A RUS GUARANTEED FFB LOAN IN)
18 THE AMOUNT OF \$33,231,000 TO FUND)
19 THE CONSTRUCTION OF FACILITIES)
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DOCKET NO. E-01787A-05-0719

DECISION NO. _____

ORDER

25 Open Meeting
26 August 24 and 25, 2010
27 Phoenix, Arizona

28 BY THE COMMISSION:

1 FINDINGS OF FACT

2 1. On May 5, 2006, in Decision No. 68691, the Arizona Corporation Commission
3 ("Commission") granted Navopache Electric Cooperative, Inc., an Arizona non-profit corporation
4 ("Navopache"), authority to borrow funds from the Rural Utilities Service Guaranteed Federal
5 Financing Bank to finance plant construction according to Navopache's construction work plan for
6 2005-2008 ("Work Plan").

7 2. On January 28, 2010, Navopache filed a Notice of Amended Work Plan (the
8 "Notice") related to Docket No. E-01787A-05-0719. Because the document submitted did not
9 contain a complete docket number, a new docket was created, Docket No. E-01787A-10-0030.
10 Navopache requested that this docket be closed and by procedural order dated April 19, 2010, this
11 docket was administratively.

1 3. On April 8, 2010, IBEW Local 387 ("Local 387") filed an application to intervene
2 in this docket. Intervention was granted by procedural order dated May 5, 2010.

3 4. On May 17, 2010, Local 387 filed a Motion for Preliminary Prehearing Conference.

4 5. On May 18, 2010, Navopache docketed a Motion for Determination that No
5 Amendment to Decision No. 68691 is Necessary, or in the Alternative, for Approval of an
6 Amendment to Decision No. 68691 ("Motion"). The filing stated that Navopache supported Local
7 387's request for a procedural conference.

8 6. On May 24, 2010, a procedural conference was convened for the purpose of
9 allowing the parties to discuss an appropriate means of resolving the dispute between Navopache
10 and Local 387. The parties were informed that no action could be taken on Navopache's Motion
11 absent a Commission vote to reopen Decision No. 68691.

12 7. On May 26, 2010, Navopache filed a letter to the Commissioners Re: Expedited
13 Request by Navopache Electric Cooperative, Inc. to Amend Decision No. 68691 pursuant to
14 Arizona Revised Statutes ("A.R.S.") § 40-252 (Involving Previously Approved \$32, 231,000
15 Loan); Placement on Staff Open Meeting Agenda; Docket No. E-01787A-05-0719.

16 8. On June 10, 2010, in an Open Meeting of the Commission, following proper notice
17 to all parties to Decision No. 68691 as required to amend a Decision pursuant to A.R.S. § 40-252,
18 the Commission voted to reopen Decision No. 68691 pursuant to A.R.S. §40-252. The
19 Commission further ordered the Commission's Hearing Division to schedule a procedural
20 conference for the purpose of addressing procedural matters regarding Navopache's request to
21 amend Decision No. 58691.

22 9. On June 17, 2010, by Procedural Order, a procedural conference was scheduled for
23 June 23, 2010, to discuss procedural issues related to Navopache's request to amend Decision
24 No. 68691.

25 10. On June 23, 2010, a procedural conference was held as scheduled. Staff,
26 Navopache, and Local 387 appeared through counsel. During the procedural conference, Local
27 387 agreed to a five day exception period for filing objections to the Recommended Opinion and
28 ...

1 Order; hearing dates were discussed; the parties and Staff agreed to engage in settlement
2 discussions up to the date of the hearing; and the parties agreed to conduct discovery

3 11. On June 25, 2010, by Procedural Order, the hearing in this matter was scheduled to
4 commence on July 14, 2010. On July 12, 2010, Navopache and Local 387 filed a stipulated request
5 to vacate the hearing set for July 14, 2010, and requested that the Commission expedite approval
6 of Navopache's application to Amend Decision No. 68691. The stipulation stated that Navopache
7 and Local 387 agreed to vacating the July 14, 2010 hearing date; requested that the Commission
8 amend Decision No. 68691 to approve the use of \$7 million in loan proceeds for the design,
9 development and construction of new Operation Facilities; and that any Order include language
10 directing Navopache to file a rate application with the Commission on or before July 1, 2011, if,
11 after review, Navopache's Board of Directors determined that a rate case is necessary.

12 12. By Procedural Order dated July 13, 2010, the July 14, 2010 hearing was vacated.
13 In the Notice, Navopache sought Commission authority to spend up to \$7 million from the
14 previously approved financing to construct a much needed operations control center in lieu of
15 certain distribution system projects that will instead be deferred to Navopache's new Construction
16 Work Plan 2010-2014. The main reason for deferral of these distribution projects was the
17 downturn in economy and reduced load forecast for the next five years.

18 13. Navopache's principal base of operations has remained at the same location in
19 Lakeside Arizona since the 1950s. Navopache leases approximately 5.84 acres in connection with
20 its current operations facilities. Navopache asserts that the building of the new operations facilities
21 is urgently needed because the landowners of the leased land have indicated they are attempting to
22 sell the leased premises, which would disrupt the operations of Navopache. The lease can be
23 terminated upon 90 days' written notice. The existing warehouse space is approximately 3,000 sq.
24 ft., including warehouse personnel office space. The existing meter shop area is approximately
25 1,400 sq. ft. The new warehouse space will be approximately 9,000 sq. ft. of floor space for
26 material, approximately 3,200 sq. ft. of storage space on a mezzanine, and approximately 1,900 sq.
27 ft. of office area (including break room, men and women restrooms, and storage closets). The new
28 meter shop area will be approximately 2,500 sq. ft.

14. The deferred projects include the following:

- Improvements to the Concho, Heber, Springer Mountain and Wagon Wheel substations and adjacent distribution lines;
- Conversion of a spare substation transformer into a mobile substation; and
- Installation of a permanent oil containment structure at the Coronado transformer.

15. The deferred projects are now planned to be constructed in the early part of the new 2010-2014 Work Plan, which is being finalized at this time.

16. Staff's concludes that Navopache's deferral of the distribution projects in question will not compromise system reliability, nor its provision of electric service to the end-use customers. Staff further concludes that the proposed new operations facilities and control center will result in more efficient and reliable system operations that should in turn result in improved customer service.

17. In light of the foregoing, Staff recommends that Navopache complete installation of a permanent oil containment structure at the Coronado transformer by December 31, 2010. Staff further recommends that Navopache's Motion to amend Decision No. 68691 be granted.

18. Staff further recommends that, in the event Navopache's Board of Directors determines that a rate case is necessary, Navopache file a rate application with the Commission on or before July 1, 2011.

CONCLUSIONS OF LAW

1. Navopache is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-301 and 40-302.

2. The Commission has jurisdiction over Navopache and the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated August 10, 2010 and concludes that it is in the public interest to approve the amendment to the Work Plan, as discussed herein.

• • •

ORDER

IT IS THEREFORE ORDERED that Navopache Electric Cooperative, Inc.'s Motion to amend Decision No. 68691 be granted as discussed above.

IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. complete installation of a permanent oil containment structure at the Coronado transformer by December 31, 2010.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
Executive Director of the Arizona Corporation Commission,
have hereunto, set my hand and caused the official seal of
this Commission to be affixed at the Capitol, in the City of
Phoenix, this _____ day of _____, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:PKB:lh\RM

1 SERVICE LIST FOR: Navopache Electric Cooperative, Inc.
2 DOCKET NO. E-01787A-05-0719

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4 Mr. William P. Sullivan
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